

NEWSLINE

Savings Plus Program

2nd Quarter 2006

New Descriptors, Same Funds

In January 2007, we're giving our funds new descriptors. The funds themselves will stay the same, but the new descriptors will clearly label what asset class they represent. The chart on page 2 lists these new descriptors.

All the funds in our portfolio will continue to be managed by outside, professional, experienced investment managers, who are identified in the *SPP Investment Guide*.

Our goal is to provide additional information that will help you understand what asset classes you're investing in when you choose investments. As financial planners will tell you, a good investment strategy focuses on asset classes rather than individual funds within a class. Diversifying among asset classes, in proportions guided by your time horizon and risk tolerance, will put you on the right path to securing your retirement income.

To help you diversify your investments, we encourage you to use the Ibbotson Questionnaire, available on our Web site and in the *SPP Investment Guide*. Through a series of questions, it guides you to a model portfolio that reflects how long you'll have your funds invested before you begin using them (*time horizon*) and the degree of volatility you're comfortable with in your investments (*risk tolerance*).

Bottom line: it's about to get a lot easier to focus on the asset class of your investments. Take advantage of our new descriptors to review your portfolio and make sure you're on the right path to build your retirement income.

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Managed vs. Index

You may have noticed “managed” or “index” in the new descriptors we’re going to use for SPP’s fund choices starting in 2007 (see the chart on page 2). We know you may not know what they mean, so here’s a quick primer on the difference between “managed funds” and “index funds.”

Managed funds are funds that use an “active management” strategy, in which the fund managers attempt to beat the returns of a market index using their own informed, independent judgment to make investment decisions. The index they’re trying to beat may be constructed by such companies as Standard and Poors, Morgan Stanley, or Frank Russell.

Managers using active management believe they can outperform the market average by finding stocks or bonds that will provide superior total return. These managers use research and analysis of the companies or bonds within an index to help them make decisions. Since active management takes more research, managed funds tend to charge more for administrative costs, which affect the net performance of the

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Fund Name	New Descriptor - <i>Effective January 2007</i>
Savings Pool	SPP Cash Managed Fund
Dwight Stable Value Fund	SPP Stable Value Managed Fund
Vanguard Total Bond Market Index Fund	SPP Bond Index Fund
Savings Plus Large Cap Value Fund	SPP Large Cap Managed Fund - Value
Savings Plus Large Cap Blend Fund	SPP Large Cap Managed Fund - Blend
Growth Fund of America	SPP Large Cap Managed Fund - Growth
CalPERS S&P 500 Index Fund	SPP Large Cap Index Fund
T. Rowe Price Mid Cap Value Fund	SPP Mid Cap Managed Fund - Value
Savings Plus Mid Cap Blend Fund	SPP Mid Cap Managed Fund - Blend
T. Rowe Price Mid Cap Growth Fund	SPP Mid Cap Managed Fund - Growth
Savings Plus Small Cap Value Fund	SPP Small Cap Managed Fund - Value
JP Morgan Undiscovered Managers Behavioral Value Fund	SPP Small Cap Managed Fund - Blend
Hartford Small Company HLS Fund	SPP Small Cap Managed Fund - Growth
Philadelphia International Fund	SPP International Managed Fund
Savings Plus Socially Responsible Fund	SPP Socially Responsible Managed Fund
Gartmore Investor Destinations Fund - Conservative	SPP Asset Allocation Index Fund - Conservative
Gartmore Investor Destinations Fund - Moderately Conservative	SPP Asset Allocation Index Fund - Moderately Conservative
Gartmore Investor Destinations Fund - Moderate	SPP Asset Allocation Index Fund - Moderate
Gartmore Investor Destinations Fund - Moderately Aggressive	SPP Asset Allocation Index Fund - Moderately Aggressive
Gartmore Investor Destinations Fund - Aggressive	SPP Asset Allocation Index Fund - Aggressive

New American Funds Trading Restriction Policy



Effective October 2, American Funds will implement new procedures to reduce frequent trading within the Growth Fund of America (GFA). American Funds says it's taking this action in response to a recent increase in the use of frequent, short-term trading.

Participants who conduct frequent trades drive up trading costs for GFA, which reduces returns for all long-term investors in the fund. American Funds has determined it's now time to implement the frequent-trade restrictions found in the GFA prospectus.

The restriction will apply to situations where an exchange with a value equal to or greater than \$5,000 is made out of the GFA. Once the exchange out occurs, an exchange of \$5,000 or more back into the GFA will be blocked for 30 calendar days from the date of the exchange out.

New SPP Tool Online

Have you seen the latest tool on our Web site? It's the "Payout Illustrator," designed to help you estimate how long your money will last when you retire or separate from State service or otherwise become eligible for distributions from your SPP account. This easy-to-use tool will help you calculate:

- how much money you can receive each month or year based on the *fixed time period* you select; or
- how long your money will last based on the *fixed annual payment* you select.

To use the Payout Illustrator, you'll need to type in your current account balance (or your assumed future balance), and your estimated annual rate of return.

We also offer three other online calculators. They help you learn how to save more, how your money can grow, how to plan for your retirement, and how to diversify your investments using asset allocation.

You can find all these tools at www.sppforu.com under the "Planning Tools" tab.

Extending your retirement horizon

SPP SAVINGS PLUS PROGRAM

Home My Account Investment Education

Planning tools

The following retirement tools can help you plan and give you the information you need to reach your financial goals.

- Ibbotson Asset Allocation Tool
- Future Value Calculator
- Paycheck Impact Calculator
- Retirement Savings Calculator
- Payout Illustrator**

Ibbotson Asset Allocation Tool
Helps determine your time horizon and gives you simple questions to assist you in diversifying your investments.

***NOTE: The Ibbotson Asset Allocation Tool**
to "enter a few responses." Select State from the pull-down menu, a City (e.g., San Francisco, CA), or another location (any of the entries listed on this page).

Managed vs. Index

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fund. However, if the fund manager consistently exceeds the index benchmark over a long time period (3, 5, or 10 years), the fund's investors will reap the benefit of higher returns.

Index funds use the opposite approach, known as "passive management." Index funds seek to match the performance of the overall market (or some part of it) by mirroring its composition. For the overall U.S. market, that index could be composed of small, medium, or large companies; an international index could be composed of international companies; a bond index could be composed of a group of bonds, domestic or international.

Managers using passive management don't try to outperform the market; they aim to match it. Investors who prefer passive management believe in the "efficient

market" theory, which holds that markets constantly incorporate and reflect all information, so stock picking is futile. Index funds have far lower expenses, so the charges to investors are typically lower than for actively managed funds.

So which funds are better for you - managed or index? Advocates of index funds point to the fact that many managed funds fail to match the index over a long period, let alone beat it. On the flip side, advocates of managed funds argue that research gives them the opportunity to be selective and invest in companies within an index that will outperform the other companies in that index.

The choice is yours. Either way, first focus on asset allocation to diversify your portfolio. Then you can decide between an index fund or managed fund within the asset classes you choose. The use of diversification and asset allocation as part of an overall investment strategy does not assure a profit or protect against loss in a declining market.

Investment Fund Update

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGE

No manager changes.

WATCH LIST

CRITERIA

No funds met the SPP Watchlist Criteria.

N/A

WATCH LIST CRITERIA:

- 1 Did not meet the established performance standards (benchmark/peer universe) over preceding 3/5-year period
- 2 Investment manager changed or such change appears imminent; this change may have detrimental effect on fund
- 3 Significant change in ownership or control of the fund provider
- 4 Material change occurred in investment focus/strategy, capitalization, or investment style
- 5 Substantial portfolio turnover within the fund
- 6 Violation of a Security and Exchange Commission rule or regulation
- 7 Fund experienced difficulty transacting trades, fund transfers, or pricing
- 8 Fund experienced problems in procedures or operations, which may detract from Savings Plus objectives
- 9 Violation of contract terms



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